


The Becker Milk Company Limited



Annual Report

Year ended April 30, 1977





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BECKER'S



Highlights of the year

	Year Ended April 30		Percentage Change
	1977	1976	
Sales	135,876,529	117,940,268	+15.2
Operating earnings	4,466,930	7,778,482	−42.6
Net earnings	990,530	3,013,113	−67.1
Earnings per share	.56	1.73	−67.6
Long term debt	3,486,567	1,827,334	+90.8
Shareholders' equity	16,185,787	15,659,397	+3.4
Shares outstanding — Class A	5,675	5,675	—
— Class B	1,179,610	1,179,610	—
— Common	540,750	540,750	—
Number of Stores	564	517	+9.1

Directors' report to the shareholders



A year ago we were able to report the results of one of our most successful years. We mentioned that the results were especially gratifying in view of the difficult business conditions encountered during the second half of that fiscal year.

We then predicted that we could continue profitable operations but surmised that no earnings records would be set in the new year.

The continued restraining effect of the Anti-Inflation Board requirements upon profits was anticipated. It would have been difficult to foresee that the adverse business conditions and intense competition within our industry would not only continue but actually increase during the new year.

The year is past now. New records in earnings indeed did not materialize. Throughout the year we were faced with most difficult business conditions.



During the spring of 1976, just before the end of our previous fiscal year, a new entrant appeared in the supermarket price wars. This item was added to the list of staple food items featured as "loss leaders". For the first time milk became one of the regularly featured items. One by one the major supermarket chains advertised and sold 3 quart containers of 2% milk at prices very substantially below the normal prices. During the first quarter of our new year it became obvious that the featuring of milk was going to be continued and that we had to re-assess our own position in regards to milk pricing. On June 17, 1976 we reduced the price of our 2% milk in jugs and bags to the point where we then met or bettered all the featured prices for 2% milk in our market area. This had an immediate effect on our milk sales. The volume quickly recovered to our previous level and then well beyond. The resulting dollar sales was excellent, especially considering that an increasingly larger proportion of our sales, 2% milk in 3 quart containers, was reduced in

price by over 20%. The effect upon profitability was discouraging. During the relatively good and active summer and early fall months, we were able to maintain reasonable profitability, although the per share earnings for the first six months of this year amounted to only 53% of the earnings during the comparable previous period.

During the second half of this year the competitive pressures did not ease. The position was further aggravated by an early and very severe winter which slowed sales and escalated costs. The end result was a nominal loss for the last six months of the year.

A further significant and adverse development at the end of this year involved a labour dispute with our plant employees. The difficult economic conditions in general and our own profit picture in particular made it mandatory that we adopt a firm position in regards to certain Union demands which, in our opinion, were unrealistic. Consequently the negotiations to renew a contract, which expired in December 1976, culminated in a strike called by the Union on March 31, 1977. The month of April was a difficult period of adjustment while arrangements were made to resume the normal flow of Becker's products to our stores. Subsequently our Plant and distribution system again began to operate with a high degree of efficiency. The settlement of the dispute took place at the time of writing this report during mid-September. A three year contract was signed with favourable conditions for the Company.

All circumstances considered, our sales did show an excellent growth, at \$135,876,529, an increase of 15% over the previous year. The corresponding increase in the number of outlets was 9%.

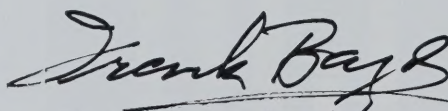
The net earnings from operations declined by 67% to \$990,530 from the previous year's earnings of \$3,013,113. The per share earnings this year were 56 cents, compared to \$1.73 in the previous year.

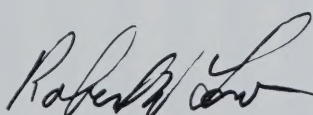
The net addition to the number of stores was 47 during this past year. The largest expansion again took place in areas outside Metropolitan Toronto. The Niagara Peninsula and Ottawa Valley, our two newest marketing areas, individually, almost equalled the growth in the Toronto area.

Net fixed asset additions this year were less than five million dollars, a considerable decrease from the previous high of a year ago. Even with the reduced capital expenditures, a reduction of working capital would have resulted due to the depressed earnings. To avoid this, an additional two million dollars was drawn-down from the loan available from the Company's bankers. This loan arrangement was re-negotiated during this year and now a further sum of six million dollars is available to us.

While difficult conditions may continue, we expect that, with our determination we will once again have profitable growth.

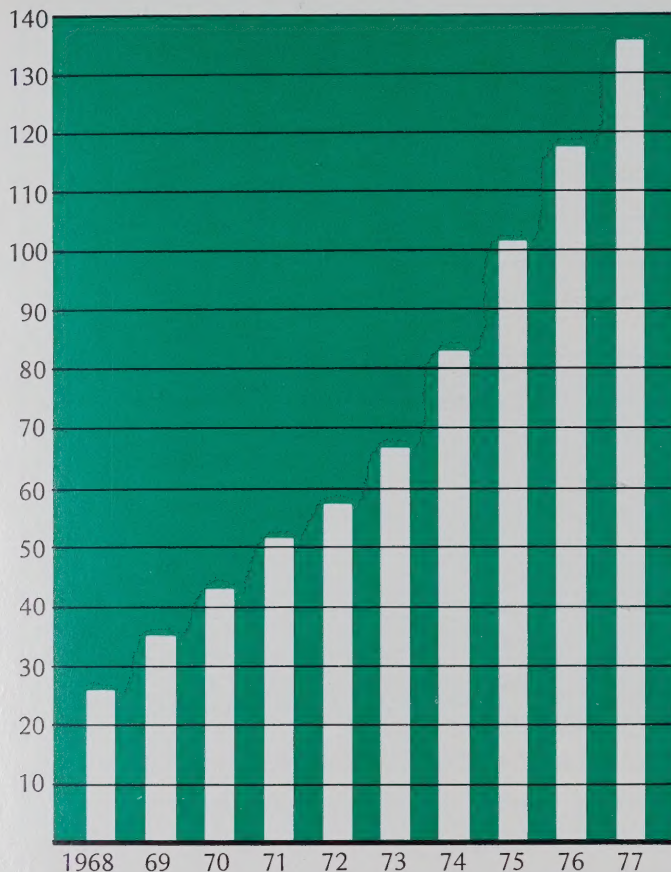
Sincerely,


Chairman of the Board

President 

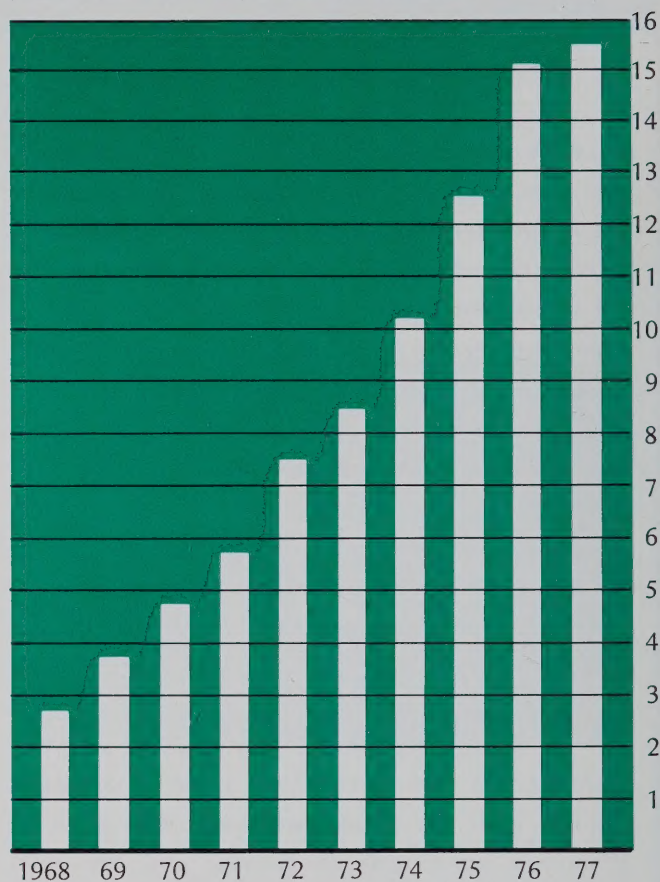
Financial Position

Total Sales in Millions of dollars



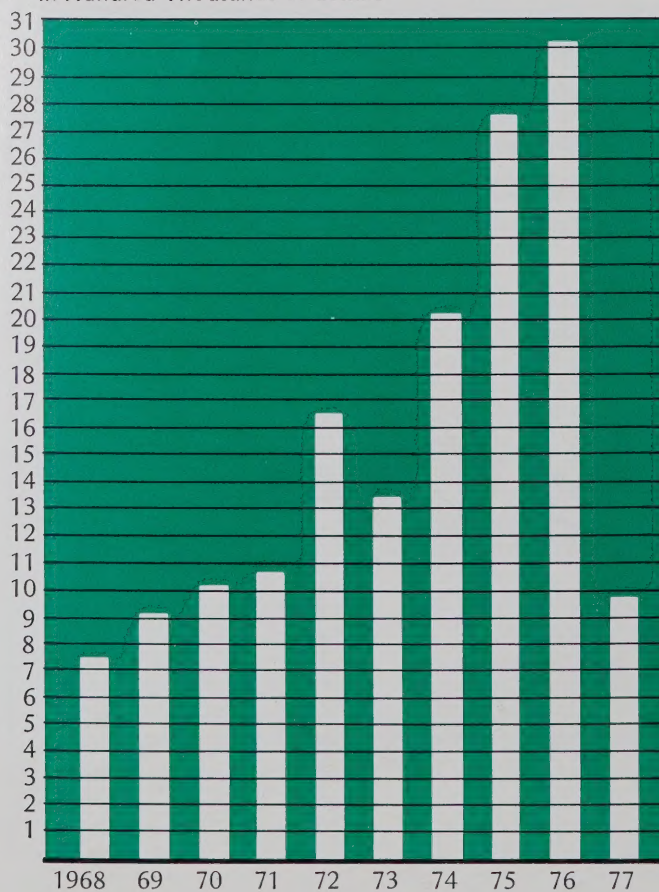
Shareholders' Equity

(Class B and Common) in Millions of dollars

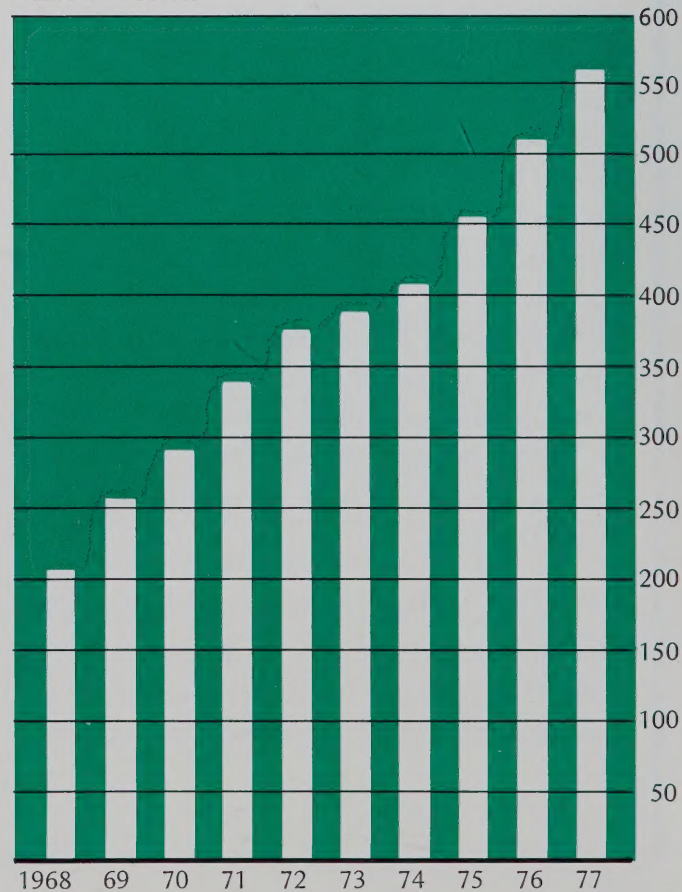


Net Earnings (after tax)

in Hundred Thousands of dollars



Number of Stores



The Becker Milk Company Limited and subsidiary Companies

Consolidated Statement of Retained Earnings

for the year ended April 30, 1977

	1977 \$	1976 \$
Balance at beginning of year	14,224,154	11,675,181
Net earnings for the year	990,530	3,013,113
	15,214,684	14,688,294
Dividends — class A preference shares	34,050	34,050
— class B preference shares	294,903	294,903
— common shares	135,187	135,187
	464,140	464,140
Balance at end of year	14,750,544	14,224,154

Consolidated Statement of Earnings

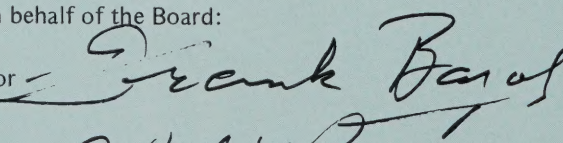
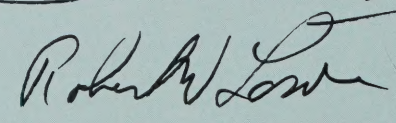
for the year ended April 30, 1977

	1977 \$	1976 \$
Sales — Note 1	135,876,529	117,940,268
Cost of goods sold	100,836,265	84,566,399
Gross profit	35,040,264	33,373,869
Operating expenses	30,573,334	25,595,387
Earnings before depreciation and amortization, interest charges and taxes on income	4,466,930	7,778,482
Depreciation and amortization	2,333,974	1,782,854
Interest charges on long-term debt	251,426	224,515
	2,585,400	2,007,369
Net earnings before taxes on income	1,881,530	5,771,113
Provision for income taxes —		
Current	776,500	2,350,000
Deferred	114,500	408,000
	891,000	2,758,000
Net earnings for the year	990,530	3,013,113
Earnings per class B and common shares	.56	1.73

The Becker Milk Company Limited and subsidiary Companies

Consolidated Balance Sheet
as at April 30, 1977

ASSETS

	1977 \$	1976 \$
Current Assets		
Cash	48,140	43,240
Marketable securities — at cost	5,073	5,073
Accounts receivable	2,874,726	1,762,574
Inventories — Note 1	8,209,026	8,256,170
Prepaid expenses and deposits	208,808	328,451
Corporation income tax refund due	896,569	292,379
Mortgages receivable	164,010	209,544
	12,406,352	10,897,431
Investments		
Chattel mortgages receivable	302,332	502,833
Mortgages receivable	107,017	135,539
	409,349	638,372
Less: Principal due within one year	164,010	209,544
	245,339	428,828
Fixed Assets — Note 1		
Assets — at cost	32,077,501	27,410,899
Less: Accumulated depreciation and amortization	11,421,442	9,289,933
	20,656,059	18,120,966
Other Assets		
Rent deposits	15,292	14,254
Progress draws on equipment and building construction	127,886	395,687
Payment in respect of retail sales tax assessment — Note 2	163,375	163,375
Payment in respect of Department of Labour assessments — Note 3	582,575	582,575
Other	127,059	143,570
	1,016,187	1,299,461
Approved on behalf of the Board:		
Director 		
Director 		
	34,323,937	30,746,686

The Becker Milk Company Limited and subsidiary Companies

LIABILITIES

	1977 \$	1976 \$
Current Liabilities		
Bank indebtedness — Note 7	3,669,640	1,701,307
Accounts payable and accrued charges	8,521,318	9,379,624
Dividends payable — Note 6	215,045	215,045
Deferred franchise income	65,817	55,928
Sundry mortgages and debentures payable	464,091	284,471
	12,935,911	11,636,375
Long-Term Liabilities		
Deferred franchise income — Note 1	446,639	459,158
Series C debentures — Note 4	3,400,000	1,600,000
Sundry mortgages payable — Note 5	428,658	388,805
Other	122,000	123,000
	4,397,297	2,570,963
Less: Due within one year	529,908	340,399
	3,867,389	2,230,564
Deferred income taxes — Note 1	1,334,850	1,220,350
Total liabilities	18,138,150	15,087,289

SHAREHOLDERS' EQUITY

Share Capital		
Authorized —		
8,000 — 6% cumulative class A preference shares with a par value of \$100 each, redeemable at par		
2,459,250 — non-voting, non-cumulative, participating class B preference shares without par value		
640,750 — common shares without par value		
Issued and Fully Paid —		
5,675 — class A shares	567,500	567,500
1,179,610 — class B shares	867,455	867,455
540,750 — common shares	288	288
	1,435,243	1,435,243
Retained earnings — Note 6	14,750,544	14,224,154
	16,185,787	15,659,397
	34,323,937	30,746,686

The accompanying notes are an integral part of the consolidated financial statements.

The Becker Milk Company Limited and subsidiary Companies

Consolidated Statement of Changes in Financial Position for the year ended April 30, 1977

	1977 \$	1976 \$
Sources of Working Capital		
Net earnings for the year	990,530	3,013,113
Non-cash charges deducted in arriving at earnings:		
Depreciation and deferred income taxes	2,443,400	2,100,123
Funds provided from operations	3,433,930	5,113,236
Increase (decrease) in long-term debt	1,659,233	(193,618)
Disposal of fixed assets	92,958	153,058
Decrease in investments	183,489	132,076
Other	—	1,613
	5,369,610	5,206,365
Applications of Working Capital		
Fixed asset additions and progress draw payments	4,672,639	6,393,974
Dividends	464,140	464,140
Decrease in deferred income	22,408	18,313
Purchase of goodwill	—	52,882
Other	1,038	
	5,160,225	6,929,309
Increase (decrease) in working capital	209,385	(1,722,944)
Working capital (deficiency) at beginning of year	(738,944)	984,000
Working capital deficiency at end of year	529,559	738,944

Notes to Consolidated Financial Statements as at April 30, 1977

1. ACCOUNTING POLICIES

Principles of Consolidation

The accounts of the subsidiary companies have been included in the consolidation from the date of their acquisition.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined for processing and warehousing inventory on a first-in, first-out basis and for retail store inventories on a first-in, first-out basis applied by the retail inventory method.

Inventory values are as follows:

	April 30	
	1977 \$	1976 \$
Processing and warehousing	1,068,259	1,840,754
Store	7,140,767	6,415,416
	8,209,026	8,256,170

Fixed Assets

Fixed assets are valued at cost and are classified as follows:

	April 30	
	1977 \$	1976 \$
Land	2,278,313	2,132,436
Buildings and leasehold improvements	9,842,241	8,495,138
Store, production, automotive and office equipment	19,956,947	16,783,325
	32,077,501	27,410,899
Less: Accumulated depreciation and amortization	11,421,442	9,289,933
	20,656,059	18,120,966

Depreciation has been calculated in accordance with the Company's established policy of amortizing the depreciable properties over their estimated useful life, with the exception of trucks and automobiles, which have been depreciated at maximum normal rates permitted by regulation under The Canada Income Tax Act.

The Company has continued to claim maximum allowances for income tax purposes.

Sales

Sales include sales by Company-owned stores and sales by the Company to its franchisees.

Franchise Income

Franchise fees are taken into income over the term of the franchise agreement.

Income Taxes

Income taxes are accounted for on the tax allocation method, whereby income taxes are fully provided on reported earnings at current tax rates. Reported earnings differ from taxable income because of timing differences, principally depreciation and franchise fee income.

2. RETAIL SALES TAX ASSESSMENTS

The Company has contested two assessments levied by the Ontario Retail Sales Tax Department for the period November 1, 1964 to April 30, 1970. The first assessment in the amount of \$163,375 has been paid and the second assessment in the amount of \$272,776 is still unpaid. The Company has received an opinion of legal counsel that at the present time it can successfully defend the foregoing assessments.

3. DEPARTMENT OF LABOUR ASSESSMENTS

The assessments are being contested and will result in a refund. At the present time, the amount of the refund is indeterminate.

4. SERIES C DEBENTURES

The authorized maximum loan from the Company's bankers under these debentures is \$10,800,000. Draw-downs may be made to December 1, 1979. The Company has drawn-down \$4,000,000 to date. Repayment of principal is 10% per annum of the amount of the draw-downs, the current annual repayment being \$400,000. The loan may be prepaid at any time without notice or bonus. The Company's bankers have received warrants to purchase 12,000 class B shares, the total allowable under this agreement. The purchase price for the shares is: 4,000 at \$12.50, and 8,000 at \$6.19, and is exercisable for a period of five years from the date of the draw-downs. The debentures are secured by a charge on all assets presently owned and hereafter acquired. Dividends may be paid on any class of shares provided capital and retained earnings exceed \$10,000,000.

5. SUNDRY MORTGAGES PAYABLE

This amount covers 18 mortgages on properties purchased for retail store locations and additional warehouse and/or production facilities. The principal amounts mature up to 1986 with various interest rates not exceeding 12% per annum.

6. DIVIDENDS

On December 31, 1976, the Company declared a dividend of \$6 per share on its class A shares, being the dividend accruing from January 1, 1976 to December 31, 1976. This dividend totalling \$34,050 was paid on January 3, 1977. Dividends totalling 25¢ per share were declared on class B and common shares during the year.

7. FLOATING CHARGE DEBENTURES

The bank indebtedness is secured by a floating charge debenture.

8. REMUNERATION OF DIRECTORS AND OFFICERS

Expenses include \$300,565 (last year \$293,500) for remuneration of officers and \$9,400 (last year \$8,900) for directors.

9. LEASES

The minimum annual rentals payable (excluding insurance, property taxes and certain other occupancy charges) under the lease obligations for store locations amount to \$3,473,000. The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) to the date of expiry or option, whichever occurs first, amounts to \$18,415,000.

10. FEDERAL ANTI-INFLATION LEGISLATION

The Company is subject to the Anti-Inflation Act which restrains increases in certain prices, profit margins and compensation subsequent to October 14, 1975. Under the terms of the Anti-Inflation Act, the Company cannot pay dividends in excess of 27¢ per class B and common share during the period October 14, 1976 to October 13, 1977.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the proceedings referred to in Note 3, these consolidated financial statements present fairly the financial position of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Langlois Hauck + Company
Chartered Accountants

Toronto, Ontario, July 29, 1977

The Becker Milk Company Limited
TEN YEARS OF
 Year ended

	1977	1976	1975
	\$	\$	\$
Sales	135,876,529	117,940,268	82,512,538
Earnings before depreciation and amortizations, interest and taxes on income	4,466,930	7,778,482	7,541,665
Depreciation and amortization	2,333,974	1,782,854	1,487,472
Interest	251,426	224,515	261,424
Taxes on income	891,000	2,758,000	2,061,000
Net earnings	990,530	3,013,113	2,775,769
Shareholders' equity (Note 1)	15,618,287	15,091,897	12,542,924
Shares outstanding (Note 1)	1,720,360	1,720,360	1,720,360
Net earnings per class B and common share (Note 2)56	1.73	1.59
No. of stores (at end of ficsal year)	564	517	451
Net fixed asset additions	4,579,681	6,240,916	4,225,499

Notes

1. *Combined Class B and Common.*

2. *Net earnings per share have been adjusted to allow for the current years Class "A.. preference dividend. Dividends on Class "A" Shares from January 1, 1977 to April 30, 1977 amounting to \$11,350 have not been declared. and/or allowed in computing the shareholder's equity.*

PROGRESS

April 30

1974	1973	1972	1971	1970	1969	1968
\$	\$	\$	\$	\$	\$	\$
82,512,538	76,084,930	68,670,017	56,956,164	50,636,008	42,581,264	34,511,342
5,533,008	3,950,902	4,381,989	3,252,808	3,271,049	2,716,803	2,189,374
1,243,306	1,199,672	1,110,483	958,516	814,019	693,962	483,576
223,504	174,032	175,962	195,230	194,858	80,813	51,562
2,061,000	1,212,500	1,484,400	1,111,560	1,197,800	1,025,431	857,663
2,005,198	1,364,698	1,611,144	1,075,002	1,064,372	916,597	796,573
10,188,286	8,475,193	7,316,581	5,901,457	4,853,593	3,815,981	2,708,463
1,720,360	1,720,360	1,720,360	1,719,220	1,718,260	1,717,540	1,703,700
1.15	.77	.92	.60	.60	.51	.45
412	392	374	340	293	251	201
1,750,575	2,324,134	2,178,436	2,167,127	2,165,236	2,244,977	1,973,365

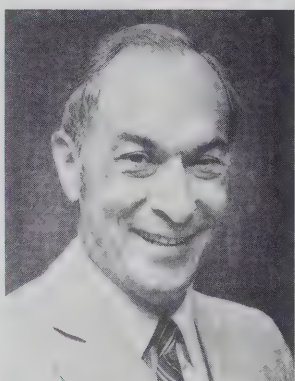
Directors and officers



Frank A. Bazos



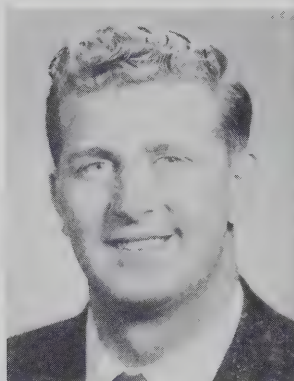
Robert W. Lowe



E.S. Miles



William H. Zimmerman



Robert Bazos



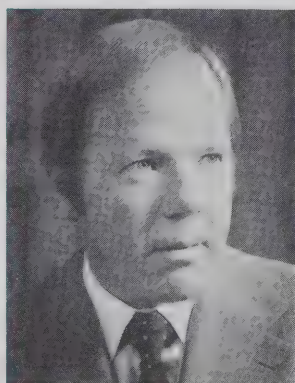
Harold Keene



George Panos



Arvi Magi



R.S. Paddon



Geoffrey W.J. Pottow

Board of Directors

Frank A. Bazos
Chairman of the Board
The Becker Milk Company Limited
Robert W. Lowe
President
The Becker Milk Company Limited
Robert Bazos
President
Perrette Dairy Limited
William H. Zimmerman
Queen's Counsel
E.S. Miles
Executive

George Panos
Vice-President
The Becker Milk Company Limited
Geoffrey W.J. Pottow
Vice-President
The Becker Milk Company Limited
Arvi Magi
Vice-President-Treasurer
The Becker Milk Company Limited

Officers

Frank A. Bazos
Chairman of the Board
Robert W. Lowe
President
Robert Bazos
Vice-President
Arvi Magi
Vice-President and Treasurer
Harold Keene
Vice-President

George Panos
Vice-President
Geoffrey W.J. Pottow
Vice-President
R.S. Paddon
Secretary

Registrar and Transfer Agent

The Royal Trust
Company, Toronto and
Montreal

Auditors

Langlois, Hauck &
Company, Toronto

Solicitors

Aird, Zimmerman &
Berlis

Stock Exchange Listing of Class "B" Shares

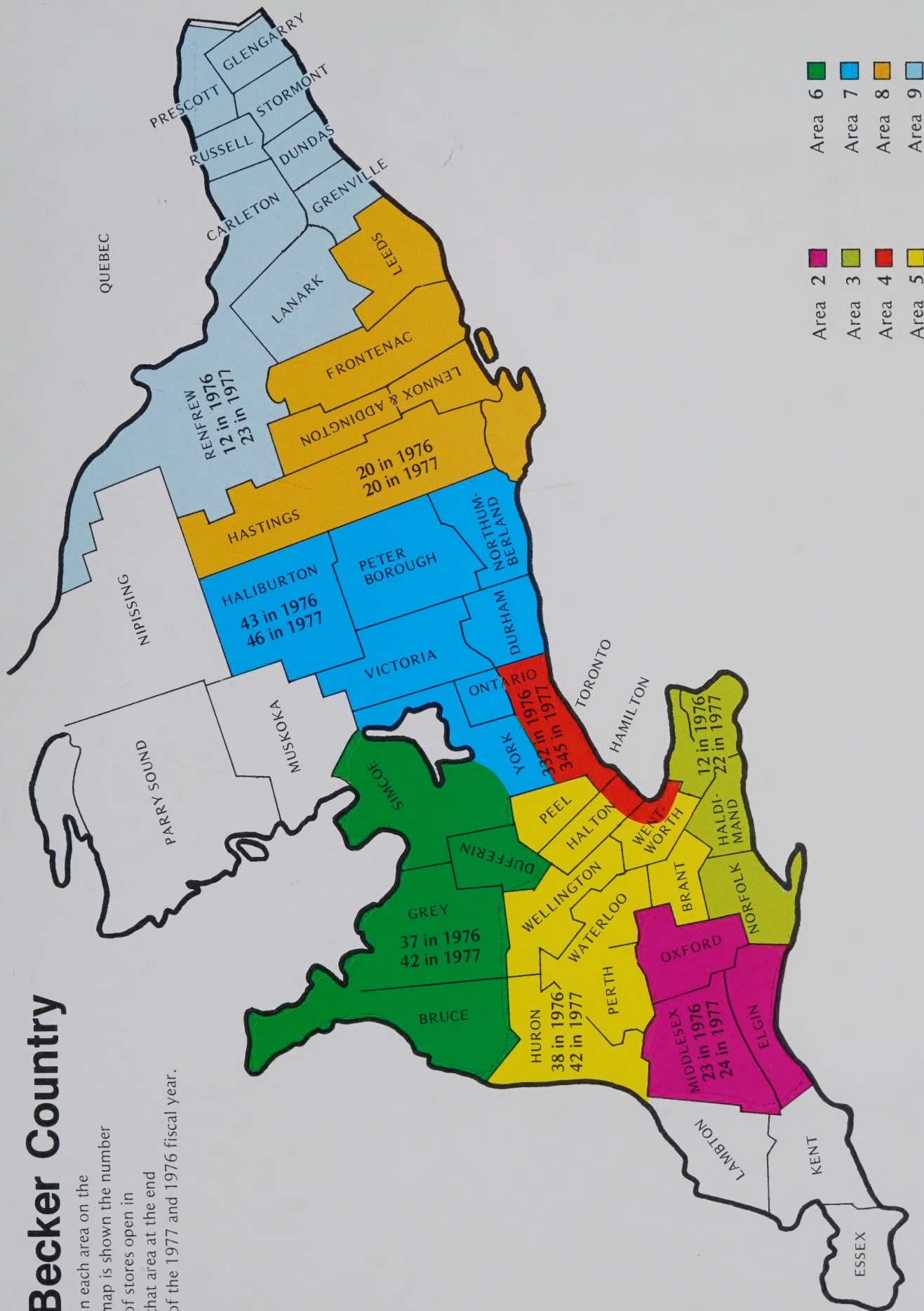
Toronto Stock Exchange

Head Office

671 Warden Ave.,
Scarborough, Ontario,
Canada

Becker Country

In each area on the map is shown the number of stores open in that area at the end of the 1977 and 1976 fiscal year.



CONSOLIDATED STATEMENT OF EARNINGS

UNAUDITED

FOR THE SIX MONTHS ENDED
OCTOBER 31, 1977

	1977	1976
Sales	72,001,449	69,854,471
Earnings before depreciation and amortization, interest charges and taxes on income	<u>1,527,385</u>	<u>3,093,410</u>
Depreciation and amortization	1,240,931	1,083,119
Interest charges on long-term debt	<u>179,914</u>	<u>109,743</u>
	<u>1,420,845</u>	<u>1,192,862</u>
Net earnings before taxes on income	<u>106,540</u>	<u>1,900,548</u>
Provision for income taxes		
Current	127,000	915,000
Deferred	<u>(77,000)</u>	<u>(21,000)</u>
	<u>50,000</u>	<u>894,000</u>
Net earnings for the period	<u>56,540</u>	<u>1,006,548</u>
Earnings per class B and common share	<u>.02</u>	<u>.58</u>

HALF-YEAR HIGHLIGHTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 1977

	1977	1976
Sales	72,001,449	69,854,471
Operating earnings	1,527,385	3,093,410
Net operating earnings	56,540	1,006,548
Earnings per share	0.023	0.58
Long-term debt	3,496,384	1,896,586
Shareholders' equity	15,459,781	15,883,400
Shares outstanding		
Class A	5,675	5,675
Class B	1,179,610	1,179,610
Common	540,750	540,750
Number of stores	575	552

Y. BECKER

INTERIM REPORT

TO THE SHAREHOLDERS OF

THE BECKER MILK COMPANY LIMITED
AND SUBSIDIARY COMPANIES

For the six months ended October 31, 1977

BECKER'S

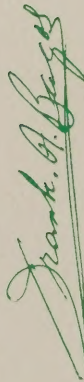
To Our Shareholders:

As of October 31, 1977 there were 575 Beckers' Stores in operation in our "Becker Country".

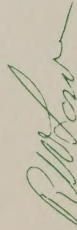
Sales of \$72,001,449 for the six month period showed an increase of \$2,146,978 or 3% over the sales of the first six months of last year.

Net earnings from operations were \$56,540 an equivalent of .02 cents per share, after allowing for the proportional Class "A" Preference Share dividends. This shows a decrease of 94% from the net operating earnings of \$1,006,548 or \$.58 per share in the same period last year.

Sincerely



Chairman of the Board



President

December 14, 1977

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

UNAUDITED
FOR THE SIX MONTHS ENDED OCTOBER 31, 1977

	1977	1976
	\$	\$
Sources of Working Capital		
Net earnings for the period	56,540	1,006,548
Non-cash charges deducted in arriving at earnings, principally depreciation and deferred income taxes	1,189,482	1,055,141
Funds provided from operations	1,246,022	2,061,689
Decrease in investments	53,763	85,357
Disposal of fixed assets	53,087	79,440
Increase in long-term debt	9,817	69,252
Other	—	705
	<u>1,362,689</u>	<u>2,296,443</u>
Application of Working Capital		
Fixed asset additions and progress draw payments	1,505,117	2,653,591
Dividends declared	215,045	215,045
Decrease (increase) in deferred income	38,979	(8150)
	<u>1,759,141</u>	<u>2,860,486</u>
Decrease in working capital	396,452	564,043
Working capital deficiency at beginning of period	529,559	738,944
Working capital deficiency at end of period	<u>926,011</u>	<u>1,302,987</u>